

# UBS Clarion Global Property Securities

Quarterly Investment Option Update

30 June 2019

## Aim and Strategy

To provide capital growth and income from a diversified portfolio of listed global real estate companies. The option aims to outperform (after management costs) the FTSE EPRA/NAREIT Developed Rental Net Return Index (AUD Hedged) when measured over rolling three year periods. The strategy can invest in listed real estate securities, or those equity securities in the process of being listed, on any recognised stock exchange in the developed or emerging markets. The strategy may also invest in cash, financial derivatives and currency instruments.

The investment manager places an emphasis on analysing countries and property sectors experiencing the strongest fundamentals and invests in companies run by quality management team.

The Fund expects to hold about 60 to 90 securities and can invest up to 10% in cash.

## Investment Option Performance

To view the latest investment performances for each product please visit [amp.com.au](http://amp.com.au)

## Investment Option Overview

<b>Investment category</b>	Property and Infrastructure
<b>Suggested investment timeframe</b>	5 years
<b>Relative risk rating</b>	7 / Very High
<b>Investment style</b>	Global Listed Property - Active
<b>Manager style</b>	Single Manager

Asset Allocation	Benchmark (%)	Actual (%)
Listed Property and Infrastructure	100	98.07
Unlisted Property and Infrastructure	-	-
Cash	-	1.93

Regional Allocation	%
North America	63.39
Europe (Ex. UK)	12.67
Japan	8.87
Australia & NZ	2.39
United Kingdom	5.20
Asia Pacific Ex. Japan	5.55

Top Holdings	%
Prologis	3.94
Equity Residential	3.13
HCP	3.11
Link REIT	3.00
Cubesmart	2.75
Avalonbay Communities	2.68
Welltower	2.57
Healthcare Trust Of America	2.39
Invitation Homes	2.08
Hudson Pacific Properties	1.95

## Investment Option Commentary

Relative performance was very strong during 2Q, extending gains from 1Q. Relative performance benefited from value added from positioning in all three major geographic regions and across most sectors. Stock selection proved to be particularly strong in Europe.

Stock selection in Europe again proved to be very strong. A broad underweight to the retail property type added value in both the U.K. and on the Continent as retail continues to face headwinds of weak consumer spending and a threat from on-line shopping. Positioning in German residential also added value as the investment manager avoided underperforming Berlin-centric companies, which sold off amid renewed regulatory concern. Our positioning among Nordic property companies were additive as these companies resumed their outperformance as property fundamentals remain strong.

U.S. positioning was positive in the majority of property sectors, with the greatest relative value generated from the net lease and technology sectors. A position in net lease REIT Spirit Realty made material contributions to relative performance as did not holding large-cap Realty Income which continues to screen expensive. In the technology sector, bellwether Equinix resumed its upward climb as data centres continued to benefit from secular tailwinds.

## Market commentary

Real estate stocks paused during the second quarter following a very strong first quarter. Listed real estate total return was approximately flat for the quarter, underperforming broad equities and bonds. Real estate companies are benefitting from their defensive characteristics of well-covered dividend yield and contractual underlying cash flows amid a macro-economic and geo-political backdrop, which continues to send mixed signals. Bond yields moved sharply lower during the quarter, reflecting this uncertainty. The yield on the U.S. 10-year Treasury bond finished the quarter at 2.0% versus 2.42% three months ago.

## Outlook

The investment manager believes this moderate global economic environment is good for real estate stocks. The economic expansion will continue this year but is slowing, potentially exacerbated by geo-political risk including Brexit, U.S. trade policy uncertainty, and a slowing/bottoming China. Inflationary pressures are easing, and monetary policy globally is accommodative. Despite a slowing pace of growth, job markets remain tight at this stage of the economic cycle and the capital markets remain receptive to companies that need to raise or refinance attractively priced debt.

Real estate companies will generate earnings growth in the 3-4% range. Earnings growth will remain steady in 2019 versus decelerating earnings growth in broad equities. With earnings of real estate companies generated by contractual leases, the quality and consistency of earnings is high. This contrasts with broad equities which are seeing sharply decelerating earnings growth. The growth in S&P 500 earnings alone is decelerating from 22% in 2018 to the low single-digit range in 2019 versus real estate company earnings which remain steady in the 3-4% range. Additionally, real estate dividend yield remains attractive at nearly 4% and will grow again in 2020. Dividends will again grow at least in-line with earnings, as real estate companies will pay out nearly half of their total return as cash payouts to shareholders.

Clarion are cautious and selective in markets and property types which screen expensive relative to the rate of earnings growth. This includes Singapore, Canada and the U.S. net lease, skilled nursing, hotel and suburban office sectors. This also includes Class B mall/shopping centre companies globally. In Australia, the stocks are scoring increasingly expensive despite attractive dividend yield. Our outlook is mixed in Australia as fundamentals range from robust office and industrial markets to an uncertain retail market, and a residential market which is meeting headwinds of affordability.

## Availability

Product name	APIR
AMP Flexible Lifetime Super	AMP1999AU
AMP Flexible Super - Retirement account	AMP2024AU
AMP Flexible Super - Super account	AMP2029AU
CustomSuper	AMP1999AU
Flexible Lifetime - Allocated Pension	AMP2004AU
Flexible Lifetime - Term Pension	AMP2019AU
Flexible Lifetime Investment (Series 2)	AMP2035AU
SignatureSuper	AMP2009AU
SignatureSuper Allocated Pension	AMP2016AU

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